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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

BOB STUMP, CHAIRMAN
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH

AZ CORP COM COM
DOCKET CONTROL

2014 JAN 24 PM 3 30

IN THE MATTER OF THE APPLICATION OF
PAYSON WATER CO., INC. AN ARIZONA
CORPORATION, FOR A DETERMINATION OF
THE FAIR VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS
WATER RATES AND CHARGES FOR UTILITY
SERVICE BASED THEREON.

DOCKET NO. W-03514A-13-0111

ORIGINAL

IN THE MATTER OF THE APPLICATION OF
PAYSON WATER CO., INC. FOR AUTHORITY
TO ISSUE EVIDENCE OF INDEBTEDNESS IN
AN AMOUNT NOT TO EXCEED \$1,238,000 IN
CONNECTION WITH INFRASTRUCTURE
IMPROVEMENTS TO THE UTILITY SYSTEM;
AND ENCUMBER REAL PROPERTY AND
PLANT AS SECURITY FOR SUCH
INDEBTEDNESS.

DOCKET NO. W-03514A-13-0142

**STAFF'S RESPONSE TO REJOINDER
TESTIMONY AND SUPPLEMENTAL
REJOINDER TESTIMONY
(PHASE 2)**

The Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission") hereby files Staff's response to Payson Water Company's Rejoinder and Supplemental Rejoinder Testimony. Staff is hereby filing the Supplemental Surrebuttal Testimony of Staff witnesses Crystal S. Brown, John A. Cassidy and Jian W. Liu in the above-captioned matter.

RESPECTFULLY SUBMITTED this 24th day of January, 2014.

Arizona Corporation Commission

DOCKETED

JAN 24 2014

DOCKETED BY

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2014 with:

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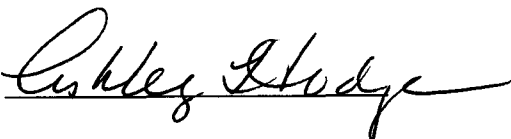
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BEFORE THE ARIZONA CORPORATION COMMISSION

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Chairman

GARY PIERCE

Commissioner

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PLANT AS SECURITY FOR SUCH)
INDEBTEDNESS.)

SUPPLEMENTAL SURREBUTTAL

TESTIMONY

OF

CRYSTAL S. BROWN

PUBLIC UTILITIES ANALYST V

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JANUARY 24, 2014

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**EXECUTIVE SUMMARY
PAYSON WATER CO., INC.
DOCKET NOS.
W-03514A-13-0111 AND W-03514A-13-0142**

Staff recommends a revenue increase of \$289,731 or 90.39 percent increase over test year revenue of \$320,525. The total annual revenue of \$610,256 produces an operating income of \$45,422 or a 9.00 percent rate of return on an original cost rate base of \$504,684. Staff's supplemental surrebuttal testimony addresses and/or responds to Payson Water Company, Inc. ("Payson" or "Company") rebuttal testimony on the following issues:

1. Rate Base
 - a. Accumulated Deferred Income Taxes ("ADIT")
2. Operating Income
 - a. \$197,722 Corporate Office Allocation
 - b. Miscellaneous Expense (\$1,650 Consumption Report Costs)
3. Staff's Recommended Purchased Water Surcharge Tariff for Mesa Del Caballo
4. Staff's Recommended Purchased Water Surcharge Tariff for East Verde Park

INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My name is Crystal S. Brown. I am a Public Utilities Analyst V employed by the Arizona Corporation Commission (“Commission”) in the Utilities Division (“Staff”). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Are you the same Crystal S. Brown who filed direct testimony in this case?

A. Yes.

PURPOSE OF SUPPLEMENTAL SURREBUTTAL TESTIMONY

Q. What is the purpose of your supplemental surrebuttal testimony in this proceeding?

A. The purpose of my testimony in this proceeding is to respond, on behalf of Staff, to the rebuttal and rejoinder testimony of Mr. Jason Williamson and Mr. Thomas Bourrassa who represent Payson Water Company, Inc. (“Payson” or “Company”). Staff’s supplemental surrebuttal testimony addresses issues that Staff had either omitted from its previous surrebuttal testimony or issues for which Staff has subsequently altered its recommendations.

Q. What issues will you address?

A. I will address the issues listed below.

1. Rate Base

a. Accumulated Deferred Income Taxes (“ADIT”)

2. Operating Income

a. \$197,722 Corporate Office Allocation

b. Miscellaneous Expense (\$1,650 Consumption Report Costs)

3. Staff's Recommended Purchased Water Surcharge Tariff for Mesa Del Caballo

4. Staff's Recommended Summer Purchased Water Surcharge Tariff for East Verde
Park

SUMMARY OF PROPOSED REVENUES

Q. Please summarize Staff's recommended revenue.

A. Staff recommends a revenue increase of \$289,731 or 90.39 percent increase over test year revenue of \$320,525. The total annual revenue of \$610,256 produces an operating income of \$45,422 or a 9.00 percent rate of return on an original cost rate base of \$504,684.

Q. How does Staff's recommended revenue compare to the recommended revenue in Staff's direct testimony?

A. Staff's recommended revenue has increased by \$49,010, from \$561,246 in its direct testimony to \$610,256 in its supplemental surrebuttal testimony due to various adjustments discussed herein.

Q. Has the weighted average cost of capital ("WACC") used to develop the revenue requirement in Staff's direct and surrebuttal testimonies changed from the WACC in Staff's supplemental surrebuttal testimony?

A. Yes. In my surrebuttal testimony, Staff used a 6.4 percent WACC. However, as a result of the Company's recent decision to withdraw its financing approval request for Phase II of the hearing, Staff has updated the WACC to 9.0 percent. Please see the supplemental surrebuttal testimony of Staff witness, John Cassidy.

1 **RATE BASE**

2 **Q. Please summarize Staff's adjustments to Payson's rate base shown on Supplemental**
3 **Surrebuttal Schedule CSB-3.**

4 **A.** A summary of the Company's proposed and Staff's recommended rate base follows:

5
TEST YEAR RATE BASE

Per Company		Per Staff –
		<u>Supplemental</u>
- <u>Direct</u>	<u>Difference</u>	<u>Surrebuttal</u>
\$659,457	\$(154,773)	\$504,684

6
7 **Q. How does Staff's recommended rate base compare to the recommended rate base in**
8 **Staff's direct testimony?**

9 **A.** Staff's recommended rate base has increased by \$79,555, from \$425,129 in its direct
10 testimony to \$504,684.

11
12 **RATE BASE**

13 *Rate Base Adjustment No. 3 - Accumulated Deferred Income Taxes*

14 **Q. Has Staff reconsidered its recommendation for the \$56,216 ADIT asset that the**
15 **Company proposed in its rejoinder testimony?**

16 **A.** Yes. In its rejoinder testimony, the Company provided schedules showing that the
17 Contributions in aid of Construction ("CIAC") plant costs that created the ADIT asset
18 were placed in service prior to the date the Internal Revenue Service ("IRS") rules (that
19 Staff relied upon in its analysis) were in effect. The cost of CIAC plant placed in service
20 during the years the previous IRS rules were in place, could have resulted in an ADIT
21 asset¹.

22

¹ Staff notes that the Commission has not always amortized CIAC. According to FRA Staff, the Commission began amortizing CIAC in 1984.

1 **Q. Under ordinary circumstances would Staff undertake a more in depth audit of the**
2 **Company's claimed \$56,216 ADIT asset?**

3 A. Yes. Staff would typically request additional support for the \$56,216 amount. However,
4 Staff previously concluded that the level of support for prior year financial activities was
5 not always available to the current owner so Staff's consideration of the Company's
6 current position relative to this alleged ADIT balance warranted a different approach.
7 Staff recognizes that Mr. Williamson, as a new owner who has recently purchased Payson
8 Water Company, is likely to encounter difficulties obtaining all of the tax information and
9 other documents from the prior owner necessary for Staff to audit the ADIT. Also the
10 amount of available time to conduct additional discovery was very limited. Further, while
11 Staff cannot specifically vouch for the accuracy of the Company proposed ADIT, the
12 amount is not unreasonable given Staff's adjustment to CIAC. Therefore, Staff has
13 decided not to litigate the issue by adopting the Company proposed ADIT, since the
14 Company's ADIT recommendation appears to acknowledge that this ADIT adjustment
15 would be needed only if Staff's corresponding CIAC adjustment is accepted.
16

17 **Q. What is Staff's recommendation?**

18 A. Staff recommends decreasing the ADIT by \$79,555 to reflect the \$56,216 ADIT asset as
19 shown on Schedules CSB-4 and CSB-6.1.
20

21 *Operating Income Adjustment No. 3 – \$197,722 Corporate Office Allocation*

22 **Q. Has Staff reconsidered its previous recommendation related to the \$197,722**
23 **Corporate Office Expense Allocation?**

24 A. Yes. While Staff continues to maintain that adjusting the actual test year corporate office
25 allocation for known and measurable changes is appropriate and consistent widely
26 accepted ratemaking principles, Staff recognizes that Mr. Williamson has only recently

1 purchased Payson Water Company; a company that has a history of customer complaints.
2 The Company may need a higher level of administrative oversight in order to bring the
3 Company's financial and operational activities up to a level that will result in fewer
4 customer complaints. Therefore, in consideration of the necessity to give consideration to
5 positions that will improve rate case processing efficiency when it is reasonable to do so,
6 and other considerations just noted, Staff has decided to recommend adopting the
7 Company proposed corporate office expense allocation.
8

9 **Q. Ms. Brown, is Staff now accepting the Company's proposed administrative oversight**
10 **billing rates related to its agreement with JW Water Holdings?**

11 **A.** Yes. However, in reviewing future rate filings docketed by the Company, Staff intends to
12 evaluate the terms of this agreement closely in order to assure that billings under this less-
13 than-arms-length agreement remain reasonable. Staff continues to believe that agreements
14 that involve affiliates must be closely monitored, and that a utility's management has an
15 ongoing responsibility to assure that the charges under such agreements are reasonable
16 and competitive with alternative for obtaining the underlying services.
17

18 **Q. What is Staff's recommendation?**

19 **A.** Staff recommends decreasing the corporate office allocation by \$23,819 as shown on
20 Schedule CSB-11.
21

1 **Q. How does Staff's current recommendation for the corporate office expense allocation**
2 **compare to the level of corporate office expense allocation recommended in Staff's**
3 **direct testimony?**

4 A. Staff's recommendation for the corporate office allocation has increased by \$19,441, from
5 \$154,462 in Staff's direct testimony to a \$173,903 in its supplemental surrebuttal
6 testimony.

7
8 *Operating Income Adjustment No. 5 – Miscellaneous Expense Other*

9 **Q. Has Staff changed its recommendation regarding the \$1,650 cost related to**
10 **consumption report reporting for augmentation/purchased water costs?**

11 A. Yes. Consistent with Staff's recommendation for a purchased water surcharge for the
12 Mesa Del Caballo and East Verde Park systems, Staff recommends inclusion of this cost
13 in operating expenses to facilitate the reporting of purchased water costs.

14
15 **Q. What is Staff's recommendation?**

16 A. Staff recommends increasing miscellaneous expense by \$1,650 as shown on Supplemental
17 Surrebuttal Schedules CSB-13.

18
19 **Q. How does Staff's recommendation for Miscellaneous Expense Other compare to the**
20 **recommendation for Miscellaneous Expense Other in Staff's direct testimony?**

21 A. Staff's recommendation for Miscellaneous Expense Other has increased by \$1,650, from
22 \$232,815 in Staff's direct testimony to a \$234,465 in its supplemental surrebuttal
23 testimony.

24

Operating Income Adjustment No. 7 – Income Taxes

Q. Did Staff make any adjustment to the income tax expense?

A. Yes. Staff's adjustment reflects Staff's calculation of the income tax expense based upon Staff's adjusted test year taxable income as modified in this supplemental surrebuttal testimony.

Operating Income Adjustment No. 8 – Property Taxes

Q. Did Staff review the Company's rebuttal testimony concerning property taxes?

A. Yes. Staff's adjustment reflects Staff's calculation of the property tax expense using Staff's recommended revenues as modified in this supplemental surrebuttal testimony.

Purchased Water Surcharge for Mesa Del Caballo

Q. Has Staff revised its calculation for the Mesa Del Caballo Purchased Water Surcharge?

A. Yes.

Q. How has Staff revised the calculation?

A. Rather than subtract the entire commodity rate (e.g. \$1.93) from the purchased water cost as Staff proposed in the Phase 1 portion of this rate proceeding, Staff is now recommending that only the avoided production costs (i.e., purchased pumping power and chemicals) be subtracted from the additional cost of purchased water, since these production costs would continue to be recovered through the Company's base rates even though the Company would not actually incur these costs when alternative water supplies are purchased for this system. Using test year data, the avoided purchased water cost is estimated to be \$0.60 per thousand gallons. A schedule showing Staff's recommended

1 calculation is shown on pages 1 and 2 of Attachment C. Staff's recommended purchased
2 water surcharge tariff for Mesa Del Caballo is shown in Attachment A.

3
4 **Q. What are Staff's recommendation?**

5 A. Staff recommends approval of Staff's recommended purchased water surcharge for Mesa
6 Del Caballo. Further, Staff recommends that the surcharge be calculated as shown in
7 Attachment C. Further, Staff recommends the simultaneous cancellation of the Mesa Del
8 Caballo Water Augmentation tariff, which will no longer be needed.

9
10 *Summer Purchased Water Surcharge for East Verde Park*

11 **Q. Has the Company requested a purchased water surcharge for East Verde Park?**

12 A. Yes and the Company has provided invoices to support its purchased water costs for East
13 Verde Park. Staff's recommended purchased water tariff is presented in Attachment B.
14 The methodology in which the surcharge is to be calculated is presented in Attachment C.

15
16 **Q. Does Staff recommend placing a cap on the amount of purchased water cost that the
17 Company can recover during any given year for East Verde Park?**

18 A. Yes, Staff recommends that the total amount of purchased water cost that the Company
19 can recover during any given year for its East Verde Park be capped at \$10,000.

20
21 **Q. Why has Staff recommended a \$10,000 cap?**

22 A. The purchased water surcharge is contemplated to be a temporary solution for the East
23 Verde Park's water shortages until the Company can develop a permanent solution.
24 Further, the complaints filed in the docket show that there is a customer perception of
25 abuse with regards to the level of water purchased. Consequently, the cap will help to
26 incent the Company to find a permanent solution and, at the same time, help to alleviate

1 customer perceptions and concerns about the proper use of the water purported to be
2 purchased exclusively for the needs of this system.

3
4 **Q. Does Staff recommend that the Company be ordered to file a new permanent rate**
5 **application by a date certain?**

6 A. Yes, Staff recommends that the Commission order the Company file a new permanent rate
7 application using a 2016 test year, and that this application be filed no later than June 30,
8 2017.

9
10 **Q. What are Staff's recommendations?**

11 A. Staff recommends the following:

- 12 1. Approval of Staff's recommended summer purchased water surcharge for East
13 Verde Park;
- 14 2. That the surcharge be calculated using the same methodology shown in
15 Attachment C;
- 16 3. That the surcharge apply only to the customers of East Verde Park;
- 17 4. That a cap of \$10,000 be placed on the amount of purchased water expense that
18 can be recovered during any given year through the summer purchased water
19 surcharge for the East Verde Park system;
- 20 5. That the surcharge be implemented only during the months of May through
21 September;
- 22 6. Approval of Staff's recommended purchased water surcharge for the Mesa Del
23 Caballo system;
- 24 7. The simultaneous cancellation of the current water augmentation tariff for the
25 Mesa Del Caballo system.

1 8. That the Company file a permanent rate application using a 2016 test year no later
2 than June 30, 2017.

3
4 *Record Keeping*

5 **Q. Does Staff have any recommendations concerning the Company's record keeping?**

6 A. Yes. Staff's audit of the Company was hampered by deficiencies in the Company's record
7 keeping. For example, the Company lacked invoices for plant to support plant costs.
8 Staff recommends that the Company submit a plan in the docket within 60 days following
9 a decision in this matter detailing how it will improve its record keeping. Such plan shall
10 include but not be limited to, implementation of policies and procedures to help ensure
11 that source documentation such as invoices and canceled checks are maintained to support
12 plant costs and are not destroyed or thrown away.

13
14 **Q. Does this conclude Staff's supplemental surrebuttal testimony?**

15 A. Yes, it does.

Attachment A

PURCHASED WATER SURCHARGE TARIFF
FOR
MESA DEL CABALLO

PURCHASED WATER SURCHARGE

I. Purpose and Applicability

The purpose of the this tariff is to equitably apportion the costs of water purchased through an interconnection with the Town of Payson among Payson Water Company, Inc. Customers. These charges are applicable to all connections and will be assessed based on usage, as more particularly provided below.

II. Definitions

Unless the context otherwise requires, the definitions set forth in R-14-2-401 of the Arizona Corporation Commission's ("Commission") rules and regulations governing water utilities shall apply in interpreting this tariff schedule.

"Avoided Production Costs" means the unit cost of production (cost per 1,000 gallons) avoided by the Company because of the use of water purchased from the Town of Payson rather than pumping groundwater from the Company's wells and booster stations.

"Company" means Payson Water Company, Inc.

"Purchased Water Cost" means the actual cost billed by the Town of Payson for water purchased through the interconnection between the Town of Payson's water system and the Company's water system.

"Purchased Water Cost" means the actual quantity (in thousands of gallons) of water billed by the Town of Payson for water purchased through the interconnection between the Town of Payson's water system and the Company's water system.

"Purchased Water Surcharge" means the surcharge calculated in accordance with Section IV below.

"Surcharge Rate" means the rate per 1,000 gallons that is calculated in accordance with Section III below.

"Water Sold" means the actual quantity (in thousands of gallons) of water sold by the Company to its Customers during the month corresponding to the month in which water was purchased from the Town of Payson through the interconnection between the Town of Payson's water system and the Company's water system.

III. Surcharge Rate Calculation

For each month that the Company purchases water from the Town of Payson through the interconnection between the Town of Payson's water system and the Company's water system, the Company will calculate the Surcharge Rate per the following formula:

$$[\text{Purchased Water Cost} - (\text{Purchased Water Quantity} \times \text{Avoided Production Costs})] / \text{Water Sold}$$

IV. Terms and Conditions

(A) Assessment and Billing of Purchased Water Surcharge: For any month in which water is purchased from the Town of Payson, after completing its billing for the month and receiving the Town's billing for the month, Payson will make the surcharge calculation to determine the Surcharge Rate.

In the following month, Payson will bill the Purchased Water Surcharge to its customers. Each individual customer's billing for the Purchased Water Surcharge will be based on that customer's actual usage for the previous month (the month corresponding to the water purchase from the Town) times the Surcharge Rate.

The Purchased Water Surcharge shall be presented as a separate line item on the customer billing.

(B) Notice to Commission: For any month in which the Company intends to bill customers a Purchased Water Surcharge, the Company shall provide Commission Staff notice of the Company's intent to bill the Purchased Water Surcharge. The notice to Commission Staff shall include the following:

1. The Purchased Water Cost.
2. The Purchased Water Quantity.
3. A copy of the bill received for the purchase of water from the Town of Payson.
4. A description of the system problem necessitating purchasing of water and a description of the action being taken by the Company to resolve the problem, including the date operations did or are expected to return to normal.
5. The dates for beginning and ending purchasing water.
6. A schedule showing the calculation of the Surcharge Rate in excel format with formulas intact, including a schedule showing the determination of the Avoided Production Costs.

Attachment B
SUMMER
PURCHASED WATER SURCHARGE TARIFF
FOR
EAST VERDE PARK

PURCHASED WATER SURCHARGE

I. Purpose and Applicability

The purchased water surcharge can only be implemented during the months of May through September.

The maximum amount of purchased water cost that can be recovered during any given year is \$10,000.

The purpose of the this tariff is to authorize Payson to make monthly adjustments to its rates and charges for water service to recover costs incurred for water purchases ("Purchased Water Costs") in the event that Payson experiences extreme water shortages for the East Verde Park water system. These charges are applicable to all connections and will be assessed based on usage, as more particularly provided below.

II. Definitions

Unless the context otherwise requires, the definitions set forth in R-14-2-401 of the Arizona Corporation Commission's ("Commission") rules and regulations governing water utilities shall apply in interpreting this tariff schedule.

"Avoided Production Costs" means the unit cost of production (cost per 1,000 gallons) avoided by the Company because of the use of water purchased from the City of Peoria rather than pumping groundwater from the Company's wells and booster stations.

"Company" means Payson Water Company.

"Purchased Water Cost" means the actual billed purchased water cost by and the Company's water system. The maximum amount of purchased water cost that can be recovered during any given year is \$10,000.

"Purchased Water Quantity" means the actual quantity (in thousands of gallons).

"Purchased Water Surcharge" means the surcharge calculated in accordance with Section IV below.

"Surcharge Rate" means the rate per 1,000 gallons that is calculated in accordance with Section III below.

"Water Sold" means the actual quantity (in thousands of gallons) of water sold by the Company to its Customers during the month corresponding to the month in which water was purchased.

III. Surcharge Rate Calculation

For each month that the Company purchases water, the Company will calculate the Surcharge Rate per the following formula:

$$[\text{Purchased Water Cost} - (\text{Purchased Water Quantity} \times \text{Avoided Production Costs})] / \text{Water Sold}$$

IV. Terms and Conditions

(A) **Assessment and Billing of Purchased Water Surcharge:** For any month in which water is purchased, after completing its billing for the month and receiving the billing for the month, Payson Water Company will make the surcharge calculation to determine the Surcharge Rate.

In the following month, Payson Water Company will bill the Summer Purchased Water Surcharge to its customers. Each individual customer's billing for the Summer Purchased Water Surcharge will be based on that customer's actual usage for the previous month (the month corresponding to the purchased water) times the Surcharge Rate.

The Purchased Water Surcharge shall be presented as a separate line item on the customer billing.

(B) **Notice to Commission:** For any month in which the Company intends to bill customers a Purchased Water Surcharge, the Company shall provide Commission Staff notice of the Company's intent to bill the Purchased Water Surcharge. The notice to Commission Staff shall include the following:

1. The Purchased Water Cost.
2. The Purchased Water Quantity.
3. A copy of the bill received for the purchase of water.
4. A description of the system problem necessitating purchasing of water and a description of the action being taken by the Company to resolve the problem, including the date operations did or are expected to return to normal.
5. The dates for beginning and ending purchasing water.
6. A schedule showing the calculation of the Surcharge Rate in excel format with formulas intact, including a schedule showing the determination of the Avoided Production Costs.

Attachment C

PURCHASED WATER
SURCHARGE CALCULATION
EXAMPLES

Examples assume that 25% of total water purchased from the Town of Payson

This example illustrates how the surcharge would be calculated for a customer using 4,500 gallons; 75% (or 3,375) from Payson Water Company and 25% (or 1,125) from the Town of Payson.

[A]	[B]	[C]	[D]	[E]	[F]	[G]
	% of Gallons	Gallons In '000s			Difference	
	From	From Town of	Town of	Payson Water	in Rate per	Surcharge
	Town of	Payson	Payson	Company	1,000 gal	
	Payson	Col A x Col B	Commodity Rate	Tariff Rate	Col D - Col E	Col C x Col F
Block 1	4,000 x	25% = 1,000	\$7.48	\$ 1.93	\$ 5.55	\$ 5.55
Block 2	21,000 x	25% = 5,250	\$7.48	\$ 2.99	\$ 4.49	\$ 23.57
Total Usage Assumption	25,000	6,250				
				Total Monthly Surcharge	\$ 29.12	*
					* Excludes Taxes	

Payson Water Company

Docket Nos. W-03514A-13-0111 and W-03514A-13-0142

Calculation of Avoided Costs

Calculation of Avoided Costs			
Current Cost	Divided by	Total Gallons Sold Per 1,000 From Sch E-7	Cost Per 1,000 Gallons
\$ 28,241	/	51,230	\$ 0.55
\$ -	/	51,230	\$ -
\$ 2,438	/	51,230	\$ 0.05
\$ -	/	51,230	\$ -
			\$ 0.60

Purchased Power for Wells (See Note Below)

Depreciation Expense on Wells

Chemicals

Water Testing

Note: The \$28,241 was calculated by taking the Company's actual test year purchased pumping power expense of \$56,482 and dividing that number by 2. The purchased pumping power expense was divided by 2 to reflect that approximately half of the purchased pumping power was incurred for pumping water out of the wells and the other half of the purchased pumping power was incurred to transport the water from the storage tanks to the customers.

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	[A] COMPANY ORIGINAL COST	[B] STAFF ORIGINAL COST
1	Adjusted Rate Base	\$ 659,457	\$ 504,684
2	Adjusted Operating Income (Loss)	\$ (182,479)	\$ (145,689)
3	Current Rate of Return (L2 / L1)	-27.67%	-28.87%
4	Required Rate of Return	11.00%	9.00%
5	Required Operating Income (L4 * L1)	\$ 72,540	\$ 45,422
6	Operating Income Deficiency (L5 - L2)	\$ 255,020	\$ 191,110
7	Gross Revenue Conversion Factor	1.56766	1.51604
8	Increase (Decrease) In Gross Revenue (L7 * L6)	\$ 399,785	\$ 289,731
9	Adjusted Test Year Revenue	\$ 320,525	\$ 320,525
10	Proposed Annual Revenue (L8 + L9)	\$ 720,310	\$ 610,256
11	Required Increase/(Decrease in Revenue) (%) (L8/L9)	124.73%	90.39%

References:

Column [A]: Company Schedules A-1

Column [B]: Staff Schedules CSB-2, CSB-3, & CSB-15

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
<u>Calculation of Gross Revenue Conversion Factor:</u>					
1	Revenue	100.0000%			
2	Uncollectible Factor (Line 11)	0.0000%			
3	Revenues (L1 - L2)	100.0000%			
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	34.0388%			
5	Subtotal (L3 - L4)	65.9612%			
6	Revenue Conversion Factor (L1 / L5)	1.516044			
<u>Calculation of Uncollectible Factor:</u>					
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 17)	32.6393%			
9	One Minus Combined Income Tax Rate (L7 - L8)	67.3607%			
10	Uncollectible Rate	0.0000%			
11	Uncollectible Factor (L9 * L10)	0.0000%			
<u>Calculation of Effective Tax Rate:</u>					
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
13	Arizona State Income Tax Rate	6.5000%			
14	Federal Taxable Income (L12 - L13)	93.5000%			
15	Applicable Federal Income Tax Rate (Line 53)	27.9565%			
16	Effective Federal Income Tax Rate (L14 x L15)	26.1393%			
17	Combined Federal and State Income Tax Rate (L13 + L16)		32.6393%		
<u>Calculation of Effective Property Tax Factor</u>					
18	Unity	100.0000%			
19	Combined Federal and State Income Tax Rate (L17)	32.6393%			
20	One Minus Combined Income Tax Rate (L18-L19)	67.3607%			
21	Property Tax Factor	2.0777%			
22	Effective Property Tax Factor (L20*L21)		1.3995%		
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			34.0388%	
24	Required Operating Income	\$ 45,422			
25	Adjusted Test Year Operating Income (Loss)	(145,689)			
26	Required Increase in Operating Income (L24 - L25)		\$ 191,110		
27	Income Taxes on Recommended Revenue (Col. [C], L52)	\$ 12,220			
28	Income Taxes on Test Year Revenue (Col. [A], L52)	(80,381)			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		92,601		
30	Recommended Revenue Requirement	\$ 610,256			
31	Uncollectible Rate (Line 10)	0.0000%			
32	Uncollectible Expense on Recommended Revenue (L30*L31)	\$ -			
33	Adjusted Test Year Uncollectible Expense	\$ -			
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32-L33)				
35	Property Tax with Recommended Revenue	\$ 25,998			
36	Property Tax on Test Year Revenue	19,978			
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		6,020		
38	Total Required Increase in Revenue (L26 + L29 + L34 + L37)		\$ 289,731		
<u>Calculation of Income Tax:</u>					
39	Revenue	\$ 320,525	\$ 289,731	\$ 610,256	
40	Operating Expenses Excluding Income Taxes	\$ 546,596	\$ 6,020	\$ 552,615	
41	Synchronized Interest (L56)	\$ -		\$ -	
42	Arizona Taxable Income (L39 - L40 - L41)	\$ (226,071)		\$ 57,640	
43	Arizona State Income Tax Rate	6.5000%		6.5000%	
44	Arizona Income Tax (L42 x L43)	\$ (14,695)		\$ 3,747	
45	Federal Taxable Income (L42 - L44)	\$ (211,376)		\$ 53,894	
46	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ (7,500)		\$ 7,500	
47	Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 25%	\$ (6,250)		\$ 973	
48	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ (8,500)		\$ -	
49	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ (43,437)		\$ -	
50	Federal Tax on Fifth Income Bracket (\$335,001 - \$1,000,000) @ 34%	\$ -		\$ -	
51	Total Federal Income Tax	\$ (65,687)		\$ 8,473	
52	Combined Federal and State Income Tax (L44 + L51)	\$ (80,381)		\$ 12,220	
53	Applicable Federal Income Tax Rate [Col. [C], L51 - Col. [A], L51] / [Col. [C], L45 - Col. [A], L45]			27.9565%	
<u>Calculation of Interest Synchronization:</u>					
54	Rate Base	\$ 504,684			
55	Weighted Average Cost of Debt	0.0000%			
56	Synchronized Interest (L45 X L46)	\$ -			

RATE BASE - ORIGINAL COST

LINE NO.	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	ADJ NO.	(C) STAFF AS ADJUSTED
1	Plant in Service	\$ 2,159,387		\$ 2,159,387
2	Less: Accumulated Depreciation	1,332,825		1,332,825
3	Net Plant in Service	<u>\$ 826,562</u>		<u>\$ 826,562</u>
<u>LESS:</u>				
4	Advances in Aid of Construction (AIAC)	\$ -		\$ -
5	Service Line and Meter Advances	\$ -		\$ -
6	Contributions in Aid of Construction (CIAC)	\$ 375,036	1	\$ 916,069
7	Less: Accumulated Amortization	231,270	2	537,975
8	Net CIAC	<u>\$ 143,766</u>		<u>\$ 378,094</u>
9	Total Advances and Contributions	\$ 143,766		\$ 378,094
10	Customer Deposits	\$ -		\$ -
11	Accumulated Deferred Income Taxes	\$ 23,339	3	\$ (56,216)
<u>ADD: Working Capital</u>				
12	Prepayments	\$ -		\$ -
13	Inventory	\$ -		\$ -
14	Total Rate Base	<u>\$ 659,457</u>		<u>\$ 504,684</u>

References:

Column [A], Company Schedule B-1, Page 1
Column [B]: Schedule CSB-4
Column [C]: Column [A] + Column [B]

SUMMARY OF RATE BASE ADJUSTMENTS

LINE NO.		[A]	[B] Adj No. 1 Unsupported Plant Treated as CIAC	[C] Adj No. 2 Unsupported Removal of CIAC Related to Sale of Star/Quail Valley System	[D] Adj No. 3 Accumulated Deferred Income Taxes ("ADIT")	[E]
	PLANT IN SERVICE	COMPANY AS FILED	Ref: Sch CSB-5	Ref: Sch CSB-6	Ref: Sch CSB-6.1	STAFF AS ADJUSTED
1	Acct. No. Plant Description					
2	301 Organization Cost	\$ 221	\$ -	\$ -	\$ -	\$ 221
3	302 Franchises	-	-	-	-	-
4	303 Land and Land Rights	16,500	-	-	-	16,500
5	304 Structures and Improvements	300,078	-	-	-	300,078
	305 Collecting and Impounding Reservoirs	2,531	-	-	-	2,531
6	307 Wells and Springs	273,013	-	-	-	273,013
7	309 Supply Mains	3,681	-	-	-	3,681
8	310 Power Generation Equipment	8,310	-	-	-	8,310
9	311 Pumping Equipment	217,608	-	-	-	217,608
10	320 Water Treatment Equipment	10,567	-	-	-	10,567
11	330 Distribution Reservoirs and Standpipes	273,800	-	-	-	273,800
12	330.2 Pressure Tanks	-	-	-	-	-
13	331 Transmission and Distribution Mains	439,972	-	-	-	439,972
14	333 Services	81,823	-	-	-	81,823
15	334 Meters and Meter Installations	199,952	-	-	-	199,952
16	335 Hydrants	1,171	-	-	-	1,171
17	336 Backflow Prevention Devices	-	-	-	-	-
18	339 Other Plant and Miscellaneous Equipment	320,820	-	-	-	320,820
19	340 Office Furniture and Equipment	-	-	-	-	-
20	340.1 Computers and Software	-	-	-	-	-
21	341 Transportation Equipment	-	-	-	-	-
22	343 Tools, Shop, and Garage Equipment	72	-	-	-	72
23	344 Laboratory Equipment	-	-	-	-	-
24	345 Power Operated Equipment	-	-	-	-	-
25	346 Communication Equipment	9,267	-	-	-	9,267
26	347 Miscellaneous Equipment	-	-	-	-	-
27	348 Other Tangible Equipment	-	-	-	-	-
28	Rounding	1	-	-	-	1
29	Total Plant in Service	\$ 2,159,387	\$ -	\$ -	\$ -	\$ 2,159,387
30	Less: Accumulated Depreciation	\$ 1,332,825	\$ -	\$ -	\$ -	\$ 1,332,825
31	Net Plant in Service	\$ 826,562	\$ -	\$ -	\$ -	\$ 826,562
33	<u>LESS:</u>					
34	Advances in Aid of Construction (AIAC)	\$ -	\$ -	\$ -	\$ -	\$ -
35	Meter Deposits - Service Line & Meter Advances	\$ -	-	-	-	-
37	Contributions in Aid of Construction (CIAC)	\$ 375,036	70,120	470,913	-	916,069
38	Less: Accumulated Amortization of CIAC	\$ 231,270	11,455	295,250	-	537,975
39	Net CIAC	\$ 143,766	\$ 58,665	\$ 175,663	\$ -	\$ 378,094
41	Total Advances and Net Contributions	\$ 143,766	\$ 58,665	\$ 175,663	\$ -	\$ 378,094
43	Customer Deposits	\$ -	-	-	-	\$ -
44	Accumulated Deferred Taxes	\$ 23,339	-	-	(79,555)	\$ (56,216)
46	<u>ADD: Working Capital</u>					
47	Prepayments	\$ -	-	-	-	\$ -
48		\$ -	-	-	-	\$ -
49	Total Rate Base	\$ 659,457	\$ (58,665)	\$ (175,663)	\$ 79,555	\$ 504,684

RATE BASE ADJUSTMENT NO. 1 - UNSUPPORTED PLANT TREATED AS CIAC

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED	
1	CIAC, Unsupported Plant Treated as CIAC	\$ -	\$ 70,120	\$ 70,120	Line 33
2	Amort of CIAC, Unsupported Plant Treated as CIAC	\$ -	\$ 11,455	\$ 11,455	Line 50
3	Net CIAC, Unsupported Plant Treated as CIAC	\$ -	\$ 58,665	\$ 58,665	

4
5
6
7
8

UNSUPPORTED PLANT TREATED AS CIAC				
Description	Plant Selected In Sample	Unsupported Plant Costs	Staff as Adjusted	
2006 Plant Addition, Acct No. 307-Wells & Springs	\$ 11,646	\$ -	\$ 11,646	
2007 Plant Addition, Acct No. 310-Power Generation Equip.	\$ 20,059	\$ -	\$ 20,059	
2002 Plant Addition, Acct No. 311 - Pumping Equipment	\$ 12,580	\$ -	\$ 12,580	
2005 Plant Addition, Acct No. 311 - Pumping Equipment	\$ 12,467	\$ -	\$ 12,467	
2008 Plant Addition, Acct No. 311 - Pumping Equipment	19,722	-	19,722	
Acct No. 311- Pumping Equipment Subtotal	\$ 44,769	\$ -	\$ 44,769	
2001 Plant Addition, Acct No. 330-Distr Reserv & Standpipes	\$ 24,296	\$ -	\$ 24,296	
2002 Plant Addition, Acct No. 330-Distr Reserv & Standpipes	31,220	-	31,220	
2003 Plant Addition, Acct No. 330-Distr Reserv & Standpipes	42,968	-	42,968	
Acct No. 331- Transp. & Distrib. Mains Subtotal	\$ 98,484	\$ -	\$ 98,484	
2003 Plant Addition, Acct No. 331-Services	\$ 23,284	\$ -	\$ 23,284	
2000 Plant Addition, Acct No. 334-Meters	\$ 35,491	\$ -	\$ 35,491	
Total	\$ 233,733	\$ -	\$ 233,733	
		x	30%	
			\$ 70,119.90	

34
35

CALCULATION OF AMORTIZATION OF CIAC ON UNSUPPORTED PLANT							
Year Added	Plant Additions	Unsupported Plant	Year Transferred To CIAC	Number of Interim Years	Depreciation Rate	Amortization of CIAC	
2000	Meters	\$ 35,491	2000	12.5	8.33%	\$36,955.00	
2001	Distrib Reserviors	\$ 24,296	2001	11.5	2.22%	\$6,202.77	
2002	Pumping Equip	\$ 12,580	2002	10.5	12.50%	\$16,511.25	
2002	Distrib Reserviors	\$ 31,220	2002	10.5	2.22%	\$7,277.38	
2003	Distrib Reserviors	\$ 42,968	2003	9.5	2.22%	\$9,061.95	
2003	Services	\$ 23,284	2003	9.5	3.33%	\$7,365.89	
2005	Pumping Equip	\$ 12,467	2005	7.5	12.50%	\$11,687.81	
2006	Wells and Springs	\$ 11,646	2006	6.5	3.33%	\$2,520.78	
2007	Pwr Gen Equip	\$ 20,059	2007	5.5	5.00%	\$5,516.23	
2008	Pumping Equip	\$ 19,722	2008	4.5	12.50%	\$11,093.63	
		\$ 233,733				\$38,184.33	
					x	30%	
						\$ 11,455.30	

References:

- Column A: Company Schedule B-2
- Column B: Testimony, CSB, Company Data Request Responses CSB 1.3
- Column C: Column [A] + Column [B]

**RATE BASE ADJUSTMENT NO. 2 -UNSUPPORTED REMOVAL OF CIAC
RELATED TO SALE OF STAR/QUAIL VALLEY SYSTEM**

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Company Proposed Removal of CIAC Related to Sale	\$ -	\$ 548,628	\$ 548,628
2	Amount of Supported CIAC Related to Sale	\$ -	\$ (77,715)	\$ (77,715)
3	Unsupported Removal of CIAC Related to Sale	\$ -	\$ 470,913	\$ 470,913
4				
5	Company Proposed Removal of Amort of CIAC Related to Sale	\$ -	\$ 343,975	\$ 343,975
6	Amort. Of CIAC on \$77,715 Supported CIAC	\$ -	\$ (48,725)	\$ (48,725) Line 26
7	Total Unsupported Removal of Amortization of CIAC	\$ -	\$ 295,250	\$ 295,250
8				
9	Net CIAC	\$ -	\$ 175,663	\$ 175,663

Star/Quail Valley System	
CIAC & Amort of CIAC	% of CIAC That Is Fully Amortized

CIAC for Star Valley Plant (CSB 2.17) \$ 548,628
Amortization of CIAC for Star Valley Plant (CSB 2.17) \$ 343,975 63% Line 18 / Line 17

Amortization of CIAC on \$77,715 Amount

\$ 77,715 From Line 2
Multiplied by 63% From Line 18
\$ 48,725

References:

Column A: Company Schedule B-2

Column B: Testimony, CSB, Company Data Request Responses CSB 2.16 & CSB 2.17

Column C: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 3 - ADIT

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Accumulated Deferred Income Taxes	\$ 23,339	\$ (79,555)	\$ (56,216)

References:

Column A: Company Schedule B-2
Column B: Testimony, CSB
Column C: Column [A] + Column [B]

OPERATING INCOME - TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	ADJ NO.	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
REVENUES:							
1	Metered Water Sales	\$ 313,559			\$ 313,559	\$ 289,731	\$ 603,290
2	Water Sales - Unmetered	-	-		-	-	-
3	Other Operating Revenues	6,966	-		6,966	-	6,966
4	Total Revenues	\$ 320,525	\$ -		\$ 320,525	\$ 289,731	\$ 610,256
EXPENSES:							
7	Salaries and Wages	\$ 55,097	\$ -	1	\$ 55,097	\$ -	\$ 55,097
8	Employee Pensions & Benefits	-	-		-	-	-
9	Purchased Power	50,533	-		50,533	-	50,533
10	Fuel for Power Production	-	-		-	-	-
11	Chemicals	2,181	-		2,181	-	2,181
12	Repairs and Maintenance	28,089	-		28,089	-	28,089
13	Office Supplies & Expense	-	-		-	-	-
14	Contractual Services	58,481	(1,683)	2	56,798	-	56,798
15	Water Testing	11,000	-		11,000	-	11,000
16	Rents	-	-		-	-	-
17	Transportation Expenses	-	-		-	-	-
18	Insurance - General Liability	-	-		-	-	-
19	Insurance - Health and Life	266	-		266	-	266
20	Reg. Comm. Exp.	-	-		-	-	-
21	Reg. Comm. Exp. - Rate Case	65,000	-		65,000	-	65,000
22	Miscellaneous Expense	235,253	(37,033)	3,4,5	198,220	-	198,220
23	Bad Debt Expense	-	-		-	-	-
24	Depreciation Expense	85,632	(26,198)	6	59,434	-	59,434
25	Taxes Other Than Income	-	-		-	-	-
26	Property Taxes	21,030	(1,052)		19,978	6,020	25,998
27	Income Taxes	(109,557)	29,176	7	(80,381)	92,601	12,220
28	Rounding	(1)	-		(1)	-	(1)
29		-	-		-	-	-
30	Total Operating Expenses	\$ 503,004	\$ (36,790)		\$ 466,214	\$ 98,621	\$ 564,835
31							
32	Operating Income (Loss)	\$ (182,479)	\$ 36,790		\$ (145,689)	\$ 191,110	\$ 45,422

References:

Column (A): Company Schedule C-1
Column (B): Schedule CSB-16
Column (C): Column (A) + Column (B)
Column (D): Schedules CSB-1 and CSB-2
Column (E): Column (C) + Column (D)

Payson Water Company, Inc.
Docket No. W-03514A-13-0111
Test Year Ended December 31, 2012

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1 Salaries and Wages	[C] ADJ #2 Contractual Services	[D] ADJ #3 Corporate Office Allocation	[E] ADJ #4 Misc. Expense, Beaver Valley Write Off	[F] ADJ #5 Misc. Expense, Other	[G] ADJ #6 Depreciation Expense	[H] ADJ #7 Income Tax Expense	[I] ADJ #8 Property Tax Expense	[J] STAFF ADJUSTED
			Ref: Sch CSB-9	Ref: Sch CSB-10	Ref: Sch CSB-11	Ref: Sch CSB-12	Ref: Sch CSB-13	Ref: Sch CSB-14	Ref: Sch CSB-15	Ref: Sch CSB-16	
1	Metered Water Sales	\$ 313,559	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 313,559
2	Water Sales - Unmetered	-	-	-	-	-	-	-	-	-	-
3	Other Operating Revenues	6,966	-	-	-	-	-	-	-	-	6,966
4	Total Revenues	\$ 320,525	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 320,525
5											
6	OPERATING EXPENSES:										
7	Salaries and Wages	\$ 55,097	-	-	-	-	-	-	-	-	\$ 55,097
8	Employee Pensions & Benefits	-	-	-	-	-	-	-	-	-	-
9	Purchased Power	50,533	-	-	-	-	-	-	-	-	50,533
10	Fuel for Power Production	-	-	-	-	-	-	-	-	-	-
11	Chemicals	2,181	-	-	-	-	-	-	-	-	2,181
12	Repairs and Maintenance	28,089	-	-	-	-	-	-	-	-	28,089
13	Office Supplies & Expense	-	-	-	-	-	-	-	-	-	-
14	Contractual Services	58,481	-	(1,683)	-	-	-	-	-	-	56,798
15	Water Testing	11,000	-	-	-	-	-	-	-	-	11,000
16	Rents	-	-	-	-	-	-	-	-	-	-
17	Transportation Expenses	-	-	-	-	-	-	-	-	-	-
18	Insurance - General Liability	-	-	-	-	-	-	-	-	-	-
19	Insurance - Health and Life	266	-	-	-	-	-	-	-	-	266
20	Reg. Comm. Exp.	-	-	-	-	-	-	-	-	-	-
21	Reg. Comm. Exp. - Rate Case	65,000	-	-	(23,819)	(7,857)	(5,357)	-	-	-	65,000
22	Miscellaneous Expense	235,253	-	-	-	-	-	-	-	-	198,220
23	Bad Debt Expense	-	-	-	-	-	-	-	-	-	-
24	Depreciation Expense	85,632	-	-	-	-	-	(26,198)	-	-	59,434
25	Taxes Other Than Income	-	-	-	-	-	-	-	-	-	-
26	Property Taxes	21,030	-	-	-	-	-	-	29,176	(1,052)	19,978
27	Income Taxes	(109,557)	-	-	-	-	-	-	-	-	(80,381)
28	Income Taxes Rounding	(1)	-	-	-	-	-	-	-	-	(1)
29											
30	Total Operating Expenses	\$ 503,004	\$ -	\$ (1,683)	\$ (23,819)	\$ (7,857)	\$ (5,357)	\$ (26,198)	\$ 29,176	\$ (1,052)	\$ 466,214
31											
32	Operating Income (Loss)	\$ (182,479)	\$ -	\$ 1,683	\$ 23,819	\$ 7,857	\$ 5,357	\$ 26,198	\$ (29,176)	\$ 1,052	\$ (145,689)

Payson Water Company, Inc.
Docket No. W-03514A-13-0111
Test Year Ended December 31, 2012

Supplemental Surrebuttal Schedule CSB-9

OPERATING INCOME ADJUSTMENT NO. 1 - SALARIES & WAGES

LINE NO.	DESCRIPTION	[A]		[B]		[C]	
		COMPANY AS FILED		STAFF ADJUSTMENTS (Col C - Col A)		STAFF AS ADJUSTED	
1	Salaries & Wages	\$	55,097	\$	-	\$	55,097
2							Removed \$2,507 Adj.
3							
4							
5							
6							
7							
8							
9							
10							
11							
12							

References:

Column A: Company Schedule C-2

Column B: Testimony, CSB; Data Request Responses CSB 1.15, 1.24, and 2.11

Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 2 - CONTRACTUAL SERVICES

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS (Col C - Col A)	STAFF AS ADJUSTED
1	Contractual Services	\$ 70,679	\$ -	\$ 70,679
2	Legal Expenses Related to Condemnation	\$ (12,198)	\$ (1,683)	\$ (13,881)
3	Total Contractual Services	\$ 58,481	\$ (1,683)	\$ 56,798

References:

Column A: Company Schedule C-2
Column B: Testimony, CSB, Data Request Response CSB 1.31
Column C: Column [A] + Column [B]

Payson Water Company, Inc.
Docket No. W-03514A-13-0111
Test Year Ended December 31, 2012

Supplemental Surrebuttal Schedule CSB-11

OPERATING INCOME ADJUSTMENT NO. 3 - \$197,722 Corporate Office Allocation

LINE NO.	DESCRIPTION	[A]		[B]		[C]	
		COMPANY AS FILED		STAFF ADJUSTMENTS (Col C - Col A)		STAFF AS ADJUSTED	
1	Miscellaneous Expense	\$	37,531	\$	-	\$	37,531
2							
3	Central Office Overhead Allocation	\$	197,722	\$	(23,819)	\$	173,903
4	Bonuses	\$	-	\$	-	\$	-
5	Star/Quail Valley Costs	\$	-	\$	-	\$	-
6	Other (Advertising, Fines, Utility Plant, Gain on Sale)	\$	-	\$	-	\$	-
7	Subtotal - Central Office Overhead Allocation	\$	197,722	\$	(23,819)	\$	173,903
8							
9	Total Miscellaneous Expense (L1 + L7)	\$	235,253	\$	(23,819)	\$	211,434

References:

Column A: Company Schedule C-1
Column B: Testimony, CSB
Column C: Column [A] + Column [B]

Payson Water Company, Inc.
Docket No. W-03514A-13-0111
Test Year Ended December 31, 2012

Supplemental Surrebuttal Schedule CSB-12

OPERATING INCOME ADJUSTMENT NO. 5 - MISCELLANEOUS EXPENSE, BEAVER DAM WRITE OFF

LINE NO.	DESCRIPTION	[A]		[B]		[C]	
		COMPANY AS FILED		STAFF ADJUSTMENTS		STAFF AS ADJUSTED	
1	Miscellaneous Expense	\$	227,396	\$	-	\$	227,396
2	Beaver Dam Write Off (CSB 2.3)	\$	7,857	\$	(7,857)	\$	-
3	Total Miscellaneous Expense	\$	235,253	\$	(7,857)	\$	227,396

References:

Column A: Company Schedule C-1
Column B: Testimony, CSB
Column C: Column [A] + Column [B]

Payson Water Company, Inc.
Docket No. W-03514A-13-0111
Test Year Ended December 31, 2012

Supplemental Surrebuttal Schedule CSB-13

OPERATING INCOME ADJUSTMENT NO. 4 - MISCELLANEOUS EXPENSE, OTHER

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Miscellaneous Expense	\$ 232,815	\$ -	\$ 232,815
2	Chemicals (CSB 2.6)	\$ 2,438	\$ (2,438)	\$ -
3	Consumption Report Regarding Water Augmentation Costs	\$ 1,650	\$ -	\$ 1,650
4	Cogsdale - Star Valley Deposit Sort	\$ 825	\$ (825)	\$ -
5	Arizona Department of Revenue	\$ 1,076	\$ (1,076)	\$ -
6	ACC Annual Assessment	\$ 1,018	\$ (1,018)	\$ -
7	Total Miscellaneous Expense	\$ 239,822	\$ (5,357)	\$ 234,465

References:

Column A: Company Schedule C-1

Column B: Testimony, CSB

Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 6 - DEPRECIATION EXPENSE ON TEST YEAR PLANT

LINE NO.	DESCRIPTION	(A) PLANT In SERVICE Per Staff	(B) NonDepreciable or Fully Depreciated PLANT	(C) DEPRECIABLE PLANT (Col A - Col B)	(D) DEPRECIATION RATE	(E) DEPRECIATION EXPENSE (Col C x Col D)
1	301 Organization Cost	\$ 221	\$ (221)	\$ -	0.00%	\$ -
2	302 Franchises	-	-	\$ -	0.00%	\$ -
3	303 Land and Land Rights	16,500	(16,500)	\$ -	0.00%	-
4	304 Structures and Improvements	300,078	-	300,078	3.33%	9,993
5	305 Collecting and Impounding Reservoirs	2,531	-	2,531	3.33%	84
6	306 Lake, River, and Other Intakes	-	-	-	2.50%	-
7	307 Wells and Springs	273,013	-	273,013	3.33%	9,091
8	309 Supply Mains	3,681	-	3,681	2.00%	74
9	310 Power Generation Equipment	8,310	-	8,310	5.00%	416
10	311 Pumping Equipment	217,608	-	217,608	12.50%	27,201
11	320 Water Treatment Equipment	10,567	-	10,567	3.33%	352
12	330 Distribution Reservoirs and Standpipes	273,800	-	273,800	2.22%	6,078
13	330.2 Pressure Tanks	-	-	-	5.00%	-
14	331 Transmission and Distribution Mains	439,972	-	439,972	2.00%	8,799
15	333 Services	81,823	-	81,823	3.33%	2,725
16	334 Meters and Meter Installations	199,952	-	199,952	8.33%	16,656
17	335 Hydrants	1,171	-	1,171	2.00%	23
18	336 Backflow Prevention Devices	-	-	-	6.67%	-
19	339 Other Plant and Miscellaneous Equipment	320,820	-	320,820	6.67%	21,399
20	340 Office Furniture and Equipment	-	-	-	6.67%	-
21	341 Transportation Equipment	-	-	-	20.00%	-
22	340.1 Computers and Software	-	-	-	20.00%	-
23	343 Tools, Shop, and Garage Equipment	72	-	72	5.00%	4
24	344 Laboratory Equipment	-	-	-	10.00%	-
25	345 Power Operated Equipment	-	-	-	5.00%	-
26	346 Communication Equipment	9,267	-	9,267	10.00%	927
27	347 Miscellaneous Equipment	-	-	-	10.00%	-
28	348 Other Tangible Equipment	-	-	-	10.00%	-
29	Total Plant	\$ 2,159,386	\$ (16,721)	\$ 2,142,665		\$ 103,821
30						
31						
32						
33	Composite Depreciation Rate (Depr Exp / Depreciable Plant):	4.85%				
34	CIAC:	\$ 916,069				
35	Amortization of CIAC (Line 33 x Line 34):	\$ 44,387				
36						
37	Depreciation Expense Before Amortization of CIAC:	\$ 103,821				
38	Less Amortization of CIAC:	\$ 44,387				
39	Test Year Depreciation Expense - Staff:	\$ 59,434				
40	Depreciation Expense - Company:	85,632				
41	Staff's Total Adjustment:	\$ (26,198)				

References:

Column [A]: Schedule CSB-4
Column [B]: From Column [A]
Column [C]: Column [A] - Column [B]
Column [D]: Engineering Staff Report
Column [E]: Column [C] x Column [D]

OPERATING INCOME ADJUSTMENT NO. 7 - TEST YEAR INCOME TAXES

LINE NO.	DESCRIPTION	(A)	(B)
	<u>Calculation of Income Tax:</u>	Test Year	
1	Revenue	\$ 320,525	
2	Less: Operating Expenses - Excluding Income Taxes	\$ 546,596	
3	Less: Synchronized Interest (L17)	\$ -	
4	Arizona Taxable Income (L1- L2 - L3)	\$ (226,071)	
5	Arizona State Income Tax Rate	6.500%	
6	Arizona Income Tax (L4 x L5)		\$ (14,695)
7	Federal Taxable Income (L4 - L6)	\$ (211,376)	
8	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ (7,500)	
9	Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 25%	\$ (6,250)	
10	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ (8,500)	
11	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ (43,437)	
12	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ -	
13	Total Federal Income Tax		\$ (65,687)
14	Combined Federal and State Income Tax (L6 + L13)		\$ (80,381)
	<u>Calculation of Interest Synchronization:</u>		
15	Rate Base	\$ 504,684	
16	Weighted Average Cost of Debt	0.00%	
17	Synchronized Interest (L16 x L17)	\$ -	
18		Income Tax - Per Staff	\$ (80,381)
19		Income Tax - Per Company	\$ (109,557)
20		Staff Adjustment	\$ 29,176

Payson Water Company, Inc.
Docket No. W-03514A-13-0111
Test Year Ended December 31, 2012

Supplemental Surrebuttal Schedule CSB-16

OPERATING INCOME ADJUSTMENT NO. 8 - PROPERTY TAX EXPENSE

LINE NO.	Property Tax Calculation	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	\$ 320,525	\$ 320,525
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	641,050	\$ 641,050
4	Staff Recommended Revenue, Per Schedule CSB-1	320,525	\$ 610,256
5	Subtotal (Line 4 + Line 5)	961,575	1,251,306
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	320,525	\$ 417,102
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	641,050	\$ 834,204
10	Plus: 10% of CWIP -	-	-
11	Less: Net Book Value of Licensed Vehicles	-	\$ -
12	Full Cash Value (Line 9 + Line 10 - Line 11)	641,050	\$ 834,204
13	Assessment Ratio	19.0%	19.0%
14	Assessment Value (Line 12 * Line 13)	121,800	\$ 158,499
15	Composite Property Tax Rate	16.4025%	16.4025%
			\$ -
16	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	\$ 19,978	
17	Company Proposed Property Tax	21,030	
18	Staff Test Year Adjustment (Line 16-Line 17)	\$ (1,052)	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 25,998
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 19,978
21	Increase in Property Tax Expense Due to Increase in Revenue Requirement		\$ 6,020
22	Increase to Property Tax Expense		\$ 6,020
23	Increase in Revenue Requirement		289,731
24	Increase to Property Tax per Dollar Increase in Revenue (Line 19/Line 20)		2.077650%

Monthly Usage Charge	United System Present	C&S Systems Present	Company Proposed Rates Consolidated	Staff Recommended Rates Consolidated
<u>Meter Size (All Classes):</u>				
5/8 x 3/4 Inch	\$ 16.00	\$ 17.00	\$ 39.24	\$ 23.00
3/4 Inch	18.40	25.50	58.85	36.00
1 Inch	21.28	42.50	98.09	60.00
1 1/2 Inch	32.00	85.00	196.18	120.00
2 Inch	56.00	136.00	313.89	200.00
3 Inch	80.00	255.00	627.78	400.00
4 Inch	128.00	425.00	980.90	600.00
6 Inch	No Tariff	850.00	1,961.80	1,200.00
8 Inch	No Tariff	No Tariff	3,138.88	2,000.00
Commodity Charge - Per 1,000 Gallons				
<u>C&S System (All Meter Sizes)</u>				
Per 1,000 gallons, for all gallons	N/A	\$ 1.4800	N/A	N/A
<u>United Systems (All Meter Sizes)</u>				
First 4,000 gallons	\$ 1.9300	N/A	N/A	N/A
Over 4,000 gallons	2.9900	N/A	N/A	N/A
<u>5/8"x3/4" and 3/4 "Meters (Consolidated)</u>				
First 4,000 gallons	N/A	N/A	\$ 2.7500	N/A
4,001 to 10,000 gallons	N/A	N/A	4.7500	N/A
Over 10,000 gallons	N/A	N/A	6.7500	N/A
First 3,000 gallons	N/A	N/A	N/A	\$ 4.0000
3,001 to 10,000 gallons	N/A	N/A	N/A	7.6640
Over 10,000 gallons	N/A	N/A	N/A	9.6170
<u>1" Meter (Consolidated)</u>				
First 25,000 gallons	N/A	N/A	4.0000	N/A
Over 25,000 gallons	N/A	N/A	4.2500	N/A
First 18,000 gallons	N/A	N/A	N/A	7.6640
Over 18,000 gallons	N/A	N/A	N/A	9.6170
<u>1 1/2" Meter (Consolidated)</u>				
First 50,000 gallons	N/A	N/A	4.0000	N/A
Over 50,000 gallons	N/A	N/A	4.2500	N/A
First 38,000 gallons	N/A	N/A	N/A	7.6640
Over 38,000 gallons	N/A	N/A	N/A	9.6170
<u>2" Meter (Consolidated)</u>				
First 80,000 gallons	N/A	N/A	4.0000	N/A
Over 80,000 gallons	N/A	N/A	4.2500	N/A
First 60,000 gallons	N/A	N/A	N/A	7.6640
Over 60,000 gallons	N/A	N/A	N/A	9.6170
<u>3" Meter (Consolidated)</u>				
First 160,000 gallons	N/A	N/A	4.0000	N/A
Over 160,000 gallons	N/A	N/A	4.2500	N/A
First 120,000 gallons	N/A	N/A	N/A	7.6640
Over 120,000 gallons	N/A	N/A	N/A	9.6170
<u>4" Meter (Consolidated)</u>				
First 250,000 gallons	N/A	N/A	4.0000	N/A
Over 250,000 gallons	N/A	N/A	4.2500	N/A
First 200,000 gallons	N/A	N/A	N/A	7.6640
Over 200,000 gallons	N/A	N/A	N/A	9.6170

6" Meter (Consolidated)

First 500,000 gallons	N/A	N/A	4.0000	N/A
Over 500,000 gallons	N/A	N/A	4.2500	N/A
First 450,000 gallons	N/A	N/A	N/A	7.6640
Over 450,000 gallons	N/A	N/A	N/A	9.6170

8" Meter (Consolidated)

First 800,000 gallons	N/A	N/A	4.0000	N/A
Over 800,000 gallons	N/A	N/A	4.2500	N/A
First 679,000 gallons	N/A	N/A	N/A	7.6640
Over 679,000 gallons	N/A	N/A	N/A	9.6170
Reestablishment (within 12 months)				

Other Service Charges

	United System	C&S Systems	Consolidated Company Proposed	Consolidated Staff Recommended
Establishment	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00
Establishment (After Hours)	\$ 35.00	\$ 35.00	\$ 35.00	Remove from Tariff
Reconnection (Delinquent)	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00
Reconnection (Delinquent and After Hours)	\$ 30.00	\$ 30.00	\$ 30.00	Remove from Tariff
Meter Test (If Correct)	\$ 25.00	\$ 20.00	\$ 25.00	\$ 25.00
Deposit	*	*	*	*
Deposit Interest*	6.00%	6.00%	6.00%	6.00%
Reestablishment (within 12 months)	**	**	**	**
NSF Check	\$ 17.50	\$ 10.00	\$ 17.50	\$ 17.50
Deferred Payment (per month)	1.50%	1.50%	1.50%	1.5% per month
Meter Re-Read (if correct and not error)	\$ 15.00	\$ 10.00	\$ 15.00	\$ 15.00
Late Charge per month (per R-14-2-409 G (6))	1.50%	1.50%	1.50%	1.5% per month
After Hour Service Charge (at cust. request)	N/A	N/A	N/A	\$ 35.00

* Per Commission Rule R14-2-403(B).

** Number of months off the system times the monthly minimum per A.A.C. R14-2-403(D).

In addition to the collection of regular rates, the utility will collect from its customers a proportionate share of any privilege, sales, use, and franchise tax. Per commission rule 14-2-409D(5).

All advances and/or contributions are to include labor, materials, overheads, and all applicable taxes.

Service and Meter Installation Charges

Service Size	United Systems and C&S System Total Present	Consolidated Proposed Service Line Charge	Consolidated Proposed Meter Installation Charge	Consolidated Total Proposed Charge	Consolidated Recommended Service Line Charge	Consolidated Recommended Meter Installation Charge	Consolidated Total Recommended Charge
5/8 x 3/4 Inch	\$ 430.00	\$ 445.00	\$ 155.00	\$ 600.00	\$ 445.00	\$ 155.00	\$ 600.00
3/4 Inch	\$ 480.00	\$ 445.00	\$ 255.00	\$ 700.00	\$ 445.00	\$ 255.00	\$ 700.00
1 Inch	\$ 550.00	\$ 495.00	\$ 315.00	\$ 810.00	\$ 495.00	\$ 315.00	\$ 810.00
1 1/2 Inch	\$ 775.00	\$ 550.00	\$ 525.00	\$ 1,075.00	\$ 550.00	\$ 525.00	\$ 1,075.00
2 Inch	\$ 1,305.00	N/A	N/A	N/A	N/A	N/A	N/A
2 Inch Turbine	N/A	\$ 830.00	\$ 1,045.00	\$ 1,875.00	\$ 830.00	\$ 1,045.00	\$ 1,875.00
2 Inch Compound	N/A	\$ 830.00	\$ 1,890.00	\$ 2,720.00	\$ 830.00	\$ 1,890.00	\$ 2,720.00
3 Inch	\$ 1,815.00	N/A	N/A	N/A	N/A	N/A	N/A
3 Inch Turbine	N/A	\$ 1,045.00	\$ 1,670.00	\$ 2,715.00	\$ 1,045.00	\$ 1,670.00	\$ 2,715.00
3 Inch Compound	N/A	\$ 1,165.00	\$ 2,545.00	\$ 3,710.00	\$ 1,165.00	\$ 2,545.00	\$ 3,710.00
4 Inch	\$ 2,860.00	N/A	N/A	N/A	N/A	N/A	N/A
4 Inch Turbine	N/A	\$ 1,490.00	\$ 2,670.00	\$ 4,160.00	\$ 1,490.00	\$ 2,670.00	\$ 4,160.00
4 Inch Compound	N/A	\$ 1,670.00	\$ 3,645.00	\$ 5,315.00	\$ 1,670.00	\$ 3,645.00	\$ 5,315.00
6 Inch - United Systems	N/A	N/A	N/A	N/A	N/A	N/A	N/A
6 Inch - C&S Systems	\$ 5,275.00	N/A	N/A	N/A	N/A	N/A	N/A
6 Inch Turbine	N/A	\$ 2,210.00	\$ 5,025.00	\$ 7,235.00	\$ 2,210.00	\$ 5,025.00	\$ 7,235.00
6 Inch Compound	N/A	\$ 2,330.00	\$ 6,920.00	\$ 9,250.00	\$ 2,330.00	\$ 6,920.00	\$ 9,250.00
8 Inch	N/A	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost

Typical Bill Analysis for United System
General Service 5/8 x 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	2,903	\$ 21.60	\$ 47.22	\$ 25.62	118.60%
Median Usage	1,434	18.77	43.18	\$ 24.42	130.10%
Staff Recommended					
Average Usage	2,903	\$ 21.60	\$ 34.61	\$ 13.01	60.22%
Median Usage	1,434	18.77	28.74	\$ 9.97	53.11%

Present & Proposed Rates (Without Taxes)
General Service 5/8 x 3/4-Inch Meter

Gallons	Present		Company Proposed		Staff Recommended	
	5/8"		5/8"		5/8"	
Consumption	Rates		Rates	Increase	Rates	Increase
-	\$ 16.00		\$ 39.24	145.25%	\$ 23.00	43.75%
1,000	17.93		41.99	134.19%	27.00	50.59%
2,000	19.86		44.74	125.28%	31.00	56.09%
3,000	21.79		47.49	117.94%	35.00	60.62%
4,000	23.72		50.24	111.80%	42.66	79.87%
5,000	26.71		54.99	105.88%	50.33	88.42%
6,000	29.70		59.74	101.14%	57.99	95.26%
7,000	32.69		64.49	97.28%	65.66	100.84%
8,000	35.68		69.24	94.06%	73.32	105.49%
9,000	38.67		73.99	91.34%	80.98	109.42%
10,000	41.66		78.74	89.01%	88.65	112.79%
11,000	44.65		85.49	91.47%	98.27	120.08%
12,000	47.64		92.24	93.62%	107.88	126.45%
13,000	50.63		98.99	95.52%	117.50	132.07%
14,000	53.62		105.74	97.20%	127.12	137.07%
15,000	56.61		112.49	98.71%	136.73	141.54%
16,000	59.60		119.24	100.07%	146.35	145.55%
17,000	62.59		125.99	101.29%	155.97	149.19%
18,000	65.58		132.74	102.41%	165.58	152.49%
19,000	68.57		139.49	103.43%	175.20	155.51%
20,000	71.56		146.24	104.36%	184.82	158.27%
25,000	86.51		179.99	108.06%	232.90	169.22%
30,000	101.46		213.74	110.66%	280.99	176.94%
35,000	116.41		247.49	112.60%	329.07	182.68%
40,000	131.36		281.24	114.10%	377.16	187.12%
45,000	146.31		314.99	115.29%	425.24	190.65%
50,000	161.26		348.74	116.26%	473.33	193.52%
75,000	236.01		517.49	119.27%	713.75	202.42%
100,000	310.76		686.24	120.83%	954.18	207.05%

Typical Bill Analysis for C&S System
General Service 5/8 x 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	6,961	\$ 27.30	\$ 64.30	\$ 37.00	135.53%
Median Usage	4,500	23.66	52.62	\$ 28.96	122.38%

Staff Recommended

Average Usage	6,961	\$ 27.30	\$ 65.36	\$ 38.05	139.38%
Median Usage	4,500	23.66	46.50	\$ 22.84	96.52%

Present & Proposed Rates (Without Taxes)
General Service 5/8 x 3/4-Inch Meter

Gallons	Present		Company Proposed		%	Staff Recommended		%
	5/8"		5/8"			5/8"		
	Rates		Rates	Increase		Rates	Increase	
-	\$	17.00	\$	39.24	130.82%	\$	23.00	35.29%
1,000		18.48		41.99	127.22%		27.00	46.10%
2,000		19.96		44.74	124.15%		31.00	55.31%
3,000		21.44		47.49	121.50%		35.00	63.25%
4,000		22.92		50.24	119.20%		42.66	86.14%
5,000		24.40		54.99	125.37%		50.33	106.26%
6,000		25.88		59.74	130.83%		57.99	124.08%
7,000		27.36		64.49	135.71%		65.66	139.97%
8,000		28.84		69.24	140.08%		73.32	154.23%
9,000		30.32		73.99	144.03%		80.98	167.10%
10,000		31.80		78.74	147.61%		88.65	178.77%
11,000		33.28		85.49	156.88%		98.27	195.27%
12,000		34.76		92.24	165.36%		107.88	210.36%
13,000		36.24		98.99	173.15%		117.50	224.22%
14,000		37.72		105.74	180.33%		127.12	237.00%
15,000		39.20		112.49	186.96%		136.73	248.81%
16,000		40.68		119.24	193.12%		146.35	259.76%
17,000		42.16		125.99	198.84%		155.97	269.94%
18,000		43.64		132.74	204.17%		165.58	279.43%
19,000		45.12		139.49	209.15%		175.20	288.30%
20,000		46.60		146.24	213.82%		184.82	296.61%
25,000		54.00		179.99	233.31%		232.90	331.30%
30,000		61.40		213.74	248.11%		280.99	357.64%
35,000		68.80		247.49	259.72%		329.07	378.30%
40,000		76.20		281.24	269.08%		377.16	394.96%
45,000		83.60		314.99	276.78%		425.24	408.66%
50,000		91.00		348.74	283.23%		473.33	420.14%
75,000		128.00		517.49	304.29%		713.75	457.62%
100,000		165.00		686.24	315.90%		954.18	478.29%

BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP

Chairman

GARY PIERCE

Commissioner

BRENDA BURNS

Commissioner

SUSAN BITTER SMITH

Commissioner

BOB BURNS

Commissioner

IN THE MATTER OF THE APPLICATION OF)
PAYSON WATER CO. INC., AN ARIZONA)
CORPORATION, FOR A DETERMINATION OF)
THE FAIR VALUE OF ITS UTILITY PLANT)
AND PROPERTY AND FOR INCREASES IN)
ITS WATER RATES AND CHARGES FOR)
UTILITY SERVICE BASED THEREON.)

DOCKET NO. W-03514A-13-0111

IN THE MATTER OF THE APPLICATION OF)
PAYSON WATER CO. INC., FOR AUTHORITY)
TO ISSUE EVIDENCE OF INDEBTEDNESS)
IN AN AMOUNT NOT TO EXCEED \$1,238,000)
IN CONNECTION WITH INFRASTRUCTURE)
IMPROVEMENTS TO THE UTILITY SYSTEM;)
AND ENCUMBER REAL PROPERTY AND)
PLANT AS SECURITY FOR SUCH)
INDEBTEDNESS.)

DOCKET NO. W-03514A-13-0142

SUPPLEMENTAL

TESTIMONY OF

JOHN A. CASSIDY

PUBLIC UTILITIES ANALYST

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JANUARY 24, 2014

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**EXECUTIVE SUMMARY
PAYSON WATER COMPANY
DOCKET NO. W-03514A-13-0111, ET AL.**

The supplemental testimony of Staff witness John A. Cassidy addresses the following issues:

Capital Structure – Staff recommends that the Commission adopt a capital structure for Payson Water Company (“Company”) for this proceeding consisting of 0.0 percent debt and 100.0 percent equity.

Cost of Equity – Staff recommends that the Commission adopt a 9.0 percent return on equity (“ROE”) for the Company. Staff’s estimated ROE for the Company is based on the 8.4 percent average of its discounted cash flow method (“DCF”) and capital asset pricing model (“CAPM”) cost of equity methodology estimates for Staff’s sample companies of 8.8 percent for the DCF and 8.02 percent for the CAPM. Staff’s recommended ROE includes an upward economic assessment adjustment of 60 basis points (0.6 percent).

Cost of Debt – The Company’s cost of debt is 5.6 percent; however, Staff has reflected a zero cost of debt in order to isolate the effects of the debt, and its associated future plant addition, to the Company’s Mesa Del Caballo customers pursuant to a previous Commission approved WIFA debt surcharge.

Overall Rate of Return – Staff recommends that the Commission adopt a 9.0 percent overall rate of return.

Mr. Bourassa’s Testimony – The Commission should continue to reject the Company’s proposed 11.0 percent ROE.

I. INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My name is John A. Cassidy. I am a Public Utilities Analyst employed by the Arizona Corporation Commission ("Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Are you the same John A. Cassidy who filed direct and surrebuttal testimony in this consolidated docket?

A. Yes, I am.

Q. Mr. Cassidy, what is the purpose of your supplemental testimony in this rate proceeding?

A. The purpose of my supplemental testimony is to respond to the rejoinder testimony of Payson Water Company ("Payson Water" or "Company") witness, Mr. Jason Williamson, concerning Payson Water's requested Phase II financing/surcharge, and to the cost of capital rejoinder testimony of Company witness, Mr. Thomas J. Bourassa. In the rejoinder testimony filed by these two Company witnesses, Payson Water has fundamentally altered its prior position as it relates to the requested Phase II financing and Phase II financing surcharge, which in turn has led to modifications to both the Company's proposed capital structure and overall rate of return ("ROR") in the rate portion of this consolidated docket. In view of changes made to the Company's position in rejoinder testimony, Staff has likewise determined the need to modify certain of its prior recommendations in this docket. Accordingly, my supplemental testimony will briefly discuss the changes made to the Company's position in rejoinder, and why they necessitate a modification to Staff's recommended capital structure and overall ROR for the Company in this proceeding.

1 **Q. Please explain how Staff's supplemental testimony is organized.**

2 A. Staff's supplemental testimony is presented in four sections. Section I is this introduction.
3 Section II presents Staff's comments on the rejoinder testimony of Company witness, Mr.
4 Williamson. Section III presents Staff's comments on the rejoinder testimony of the
5 Company's cost of capital witness, Mr. Bourassa. Finally, Section IV presents Staff's
6 newly modified cost of capital recommendations.

7
8 **II. STAFF RESPONSE TO COMPANY WITNESS MR. JASON WILLIAMSON**

9 **Q. In what way has the rejoinder testimony filed by Mr. Williamson altered the**
10 **Company's position as it relates to Payson Water's request for the Phase II financing**
11 **and Phase II surcharge?**

12 A. In his rejoinder testimony, Mr. Williamson has withdrawn the Company's request for
13 approval of both the Phase II financing and the Phase II financing surcharge.¹
14

15 **Q. Why does the above change to the Company's position necessitate a change to Staff's**
16 **recommended capital structure and overall ROR in this proceeding?**

17 A. In its pre-filed direct and surrebuttal testimony, Staff recommended approval of the
18 Company's request for both the Phase II financing and the Phase II financing surcharge.
19 As a consequence, Staff included the Phase II debt in its recommended pro forma capital
20 structure for the Company. However, in view of the Company withdrawing its request for
21 the Phase II financing, the pro forma capital structure originally recommended by Staff no
22 longer has immediate relevance for purposes of setting rates in this docket. Accordingly,
23 a change to Staff's recommended capital structure is needed to give recognition to this
24 development, which in turn will result in a change to Staff's recommended overall ROR
25 for the Company.

¹ See Williamson Rejoinder, Table on p. 3, and discussion on pp. 4-5.

1 **Q. What is Staff's current recommended pro forma capital structure for Payson Water?**

2 A. In both its pre-filed direct and surrebuttal testimony, Staff recommended a pro forma
3 capital structure composed of 52.8 percent debt and 47.2 percent equity. The debt
4 component of Staff's recommended pro forma capital structure is comprised of the
5 \$275,000 Phase I debt authorized by the Commission in Decision No. 74175, and the Staff
6 recommended \$904,650 Phase II debt requested by the Company.²
7

8 **Q. What capital structure does Staff now recommend for the Company?**

9 A. Staff now recommends a capital structure comprised of 0.0 percent debt and 100.0 percent
10 equity. Staff's recommended capital structure is reflective of the Company's actual
11 capital structure as of the December 31, 2012 test-year end.
12

13 **Q. Why does Staff exclude the \$275,000 Phase I debt authorized by the Commission in**
14 **Decision No. 74175 from its recommended capital structure for Payson Water?**

15 A. Proceeds from the Phase I debt financing approved by the Commission are to be used to
16 fund the planned interconnection of the Company's Mesa del Caballo ("MDC") system to
17 the Town of Payson's water system via the Cragin pipeline. Because only MDC
18 customers are to benefit from the planned interconnection, Staff recommended approval of
19 a WIFA loan surcharge which would apply only to customers of the MDC system. In
20 Decision No. 74175, the Commission authorized the Company's requested Phase I
21 financing and approved the WIFA loan surcharge as recommended by Staff. Thus, given
22 the ordering language contained in Decision No. 74175³ expressive of the Commission's
23 desire that MDC customers be responsible for repayment of the Phase I debt by means of
24 a monthly surcharge, Staff's recommended capital structure excludes the Phase I debt in

² See Cassidy Direct, p. 7, footnote 1.

³ Decision No. 74175, p. 16, lines 13-21.

1 order to isolate/separate that component from the capital structure to be used for purposes
2 of setting rates for all Payson Water customers, regardless of system.
3

4 **III. STAFF RESPONSE TO COMPANY'S COST OF CAPITAL WITNESS MR.**
5 **THOMAS J. BOURASSA**

6 **Q. In his rejoinder testimony, does Mr. Bourassa propose a different capital structure**
7 **for Payson Water than that proposed in his pre-filed direct and rebuttal testimony?**

8 A. Yes. In rejoinder testimony, Mr. Bourassa now proposes a capital structure consisting of
9 20.71 percent debt and 79.29 percent equity,⁴ and is reflective of an anticipated drawdown
10 of \$274,325 of Commission authorized Phase I Water Infrastructure Finance Authority of
11 Arizona ("WIFA") debt. Previously, Mr. Bourassa had proposed a capital structure for the
12 Company consisting of 0.0 percent debt and 100.0 percent equity. Effectively, the
13 Company is now proposing that its previously approved WIFA loan surcharge be voided
14 in favor of including the funding of this loan in the base rates and charges billed to all
15 system customers.
16

17 **Q. In rejoinder testimony, what cost of debt does Mr. Bourassa propose for the**
18 **Company?**

19 A. He proposes a cost of debt for the Company of 5.6 percent.⁵ Mr. Bourassa states that this
20 is the cost rate for the Commission authorized WIFA loan, which is expected to close this
21 month.⁶
22

⁴ See Bourassa Rejoinder, p. 2, lines 5-7, and Rejoinder Schedule D-1.

⁵ See Bourassa Rejoinder, p. 2, line 8.

⁶ See Bourassa Rejoinder, p. 3, lines 7-8.

1 **Q. For purposes of his rejoinder testimony, has Mr. Bourassa updated his cost of equity**
2 **analysis for Payson Water?**

3 A. No. He continues to propose a ROE of 11.00 percent for the Company.
4

5 **Q. Given the changes noted above to Mr. Bourassa's proposed capital structure and cost**
6 **of debt, what overall ROR does he now propose for the Company?**

7 A. In rejoinder, Mr. Bourassa now proposes an overall ROR for the Company of 9.88
8 percent. Previously, due to his recommended 100.0 percent equity capital structure, his
9 proposed ROR was equal to his proposed 11.00 percent ROE.
10

11 **Q. Does Staff believe that the capital structure and overall ROR proposed by Mr.**
12 **Bourassa in his rejoinder testimony should be adopted in this proceeding?**

13 A. No. For the reasons noted earlier, Staff now recommends a 100.0 percent equity capital
14 structure for the Company, and an overall ROR of 9.0 percent based upon Staff's
15 recommended 9.0 percent ROE. Staff's supplemental position continues to support the
16 Commission's previous decision to have the Company's currently approved WIFA loan
17 funding requirement paid exclusively by the Payson Water MDC-system customers.
18

19 **IV. STAFF RECOMMENDATIONS**

20 **Q. Please summarize Staff's cost of capital recommendations for the Company.**

21 A. Staff recommends the following for Payson Water's cost of capital:
22

- 23 1. A capital structure of 0.0 percent debt and 100.0 percent equity.
- 24 2. A 9.0 percent return on equity (a figure which includes an upward 60 basis point
25 (0.6 percent) economic assessment adjustment).
- 26 3. A 9.0 percent overall rate of return.

Payson Water Company Cost of Capital Calculation
Capital Structure
And Weighted Average Cost of Capital
Staff Recommended and Company Proposed

[A]	[B]	[C]	[D]
<u>Description</u>	<u>Weight (%)</u>	<u>Cost</u>	<u>Weighted Cost</u>
Staff Recommended Structure			
Debt	0.0%	0.0%	0.0%
Common Equity	100.0%	9.0%	9.0%
Weighted Average Cost of Capital			9.0%
Company Proposed Structure			
Debt	20.71%	5.60%	1.16%
Common Equity	79.29%	11.00%	8.72%
Weighted Average Cost of Capital			9.88%

[D] : [B] x [C]

Supporting Schedules: JAC-2, JAC-3 and JAC-4.

BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP

Chairman

GARY PIERCE

Commissioner

BRENDA BURNS

Commissioner

BOB BURNS

Commissioner

SUSAN BITTER SMITH

Commissioner

IN THE MATTER OF THE APPLICATION OF) DOCKET NO. W-03514A-13-0111
PAYSON WATER CO., INC., AN ARIZONA)
CORPORATION, FOR DETERMINATION OF)
THE FAIR VALUE OF ITS UTILITY PLANTS)
AND PROPERTY AND FOR INCREASES IN ITS)
WATER RATES AND CHARGES FOR UTILITY)
SERVICE BASED THEREON.)

IN THE MATTER OF THE APPLICATION OF) DOCKET NO. W-03514A-13-0142
PAYSON WATER CO., INC., FOR AUTHORITY)
TO ISSUE EVIDENCE OF INDEBTEDNESS IN)
AN AMOUNT NOT TO EXCEED \$1,238,000 IN)
CONNECTION WITH INFRASTRUCTURE)
IMPROVEMENTS TO THE UTILITY SYSTEM)
AND ENCUMBER REAL PROPERTY AND)
PLANT AS SECURITY FOR SUCH)
INDEBTEDNESS.)

SUPPLEMENTAL

TESTIMONY

OF

JIAN W. LIU

UTILITIES ENGINEER

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JANUARY 24, 2014

**EXECUTIVE SUMMARY
PAYSON WATER COMPANY
DOCKET NOS. W-03514A-13-0111 AND W-03514A-13-0142**

Staff recommends that any increase in rates and charges approved in this proceeding not become effective until the first day of the month following the Payson Water Company, Inc. ("PWC" or "Company") filing of either an updated Arizona Department of Environmental Quality ("ADEQ") Drinking Water Compliance Status Report indicating that the Company is in compliance with ADEQ requirements for all of its water systems or the Company enters into a Consent Agreement with ADEQ to address its Notice of Violation.

1 **INTRODUCTION**

2 **Q. Please state your name, occupation, and business address.**

3 A. My name is Jian W. Liu. My job title is Water/Wastewater Engineer. My place of
4 employment is the Arizona Corporation Commission ("ACC" or "Commission"), Utilities
5 Division ("Staff"), 1200 West Washington Street, Phoenix, Arizona 85007.
6

7 **Q. Are you the same Jian W. Liu who filed Direct Testimony in this case?**

8 A. Yes, I am.
9

10 **Q. What is the purpose of your Supplemental Testimony in this proceeding?**

11 A. The purpose of my Supplemental Testimony in this proceeding is to make following
12 recommendation which is a modification to Staff's original recommendation regarding
13 when rates should become effective in relation to compliance with the Arizona
14 Department of Environmental Quality ("ADEQ").
15

16 Staff recommends that any increase in rates and charges approved in this proceeding not
17 become effective until the first day of the month following the Payson Water Company,
18 Inc. ("PWC" or "Company") filing of either an updated ADEQ Drinking Water
19 Compliance Status Report indicating that the Company is in compliance with ADEQ
20 requirements for all of its water systems or the Company enters into a Consent Agreement
21 with ADEQ to address its Notice of Violation.
22

23 **Q. Does this conclude your Supplemental Testimony?**

24 A. Yes, it does.